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**BISON**  
RESOURCES LTD.

ANNUAL REPORT

Wimpear Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2T6

Bison  
Resources  
Ltd.

1998  
Annual  
Report

**The goal of the management of Bison Resources Ltd. is to build a company which is positioned to be successful independent of changes in the economic climate, commodity pricing, current industry trends or the stage of growth of the company.**

**The management team at Bison Resources Ltd. is committed to building shareholder value.**

# BISON

**The Annual General Meeting of shareholders of Bison Resources Ltd. will be held at the Ramada Hotel, Lombardy Room, 708 - 8th Avenue SW, Calgary, Alberta on Friday June 4, 1999, at 2:00 p.m. (Calgary time). Shareholders are encouraged to attend and those unable to do so should complete the Form of Proxy and forward at their earliest convenience.**

## 1998 highlights

Winspear Business Reference Room  
 University of Alberta  
 1-18 Business Building  
 Edmonton, Alberta T6G 2R6

Production - oil and ngl		35,608 bbls
Production - gas		64,950 mcf
Reserves - oil		181,200 bbls
Reserves - gas		422,400 mcf
Undeveloped Land		6,640 net acres
Average price per BOE	\$	15.86
Lifting costs per BOE	\$	2.71
Netback per BOE	\$	13.15
Cash flow from operations	\$	318,931
Cash flow per share	\$	0.05
Net income (loss)	\$	(198,936)
Net income (loss) per share	\$	(0.03)
EBITDA	\$	202,067
Capital expenditures	\$	2,235,633
Total assets (net) at December 31, 1998	\$	1,852,142
Long-term debt at December 31, 1998	\$	231,000
Shareholder's equity at December 31, 1998	\$	1,407,988
Weighted average shares outstanding		6,450,521

## report to shareholders

International pricing of oil caused painful results throughout the oil industry in 1998 and the efforts of Bison Resources Ltd. have been slowed by the general lack of enthusiasm in the marketplace. In keeping with the philosophy of maintaining corporate structure and facing the reality of sparse equity financing available from the public, Bison chose to minimize its share offerings throughout the year. Bison is currently investigating various new and interesting financing alternatives which will preserve shareholder value.

At the beginning of 1998 sales of oil and gas assets were still commanding prices exceeding values determined to be fair by Bison management. As a consequence Bison chose to forego the asset acquisition approach in favor of the pursuit of drillable prospects. Saskatchewan became a focal point for Bison in 1998 and a combination of both freehold and public lands were purchased. Initial drilling results on company lands were very successful encouraging Bison to increase its land holdings.

As the year progressed and the price of oil continued its downward slide, the profitability of even the best production shrank and drilling activity could no longer be justified. Bison had by this time inventoried several very good prospects which will prove to be economic to either drill, farmout or sell with a sustained return in pricing.

A shift in focus to gas development in Alberta occurred in late 1998 and Bison has put together several interesting gas prospects and now is tasked with obtaining petroleum and natural gas rights on those prospects. Since more land in Alberta is publicly held the time required to assemble land positions is longer due to the posting and public sale process. Bison anticipates greater activity in pursuing drilling ventures on lands currently held by others by way of joint venture projects.

The management team at Bison Resources Ltd. is committed to building shareholder value and is appreciative of the patience both necessary and provided by our shareholders.

**In keeping with the philosophy of maintaining corporate structure and facing the reality of sparse equity financing available from the public, Bison chose to minimize its share offerings throughout the year.**

Nicolas S. Swagor  
President

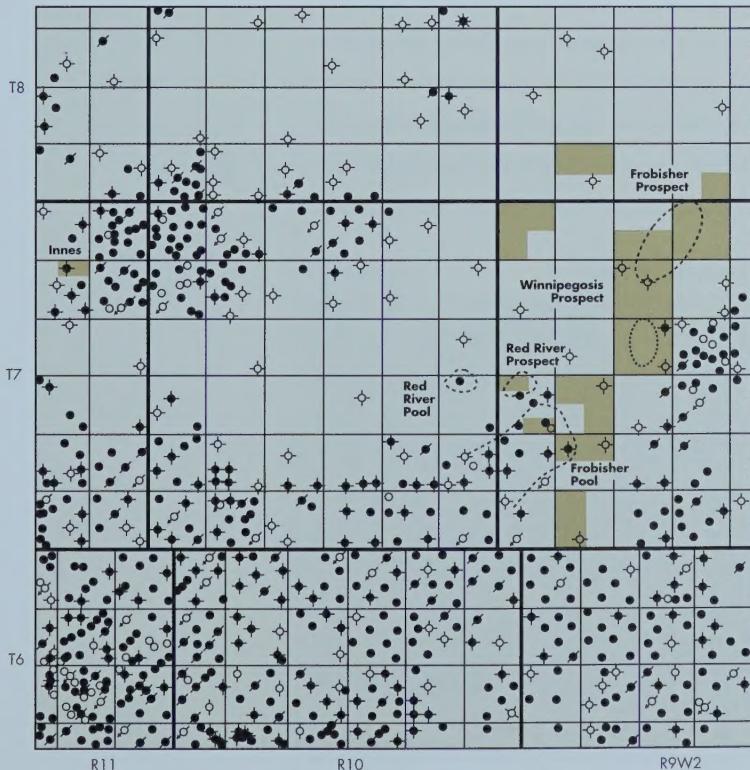


## operations review

**On February 26, 1998 Bison licensed its first operated well, a 100% working interest multi-lateral horizontal well targeting the Frobisher zone in the Huntoon area of Southeast Saskatchewan.**

On February 26, 1998 Bison licensed its first operated well, a 100% working interest multi-lateral horizontal well targeting the Frobisher zone in the Huntoon area of Southeast Saskatchewan. The well located at 01-18-007-09 W2M, was drilled successfully in the second quarter as a two leg multi-lateral horizontal oilwell and completed in the Frobisher Formation. The well encountered a total of 1,143 meters of oil stained porosity in the open hole horizontal sections and upon initial production the well steadily flowed at restricted rates to a maximum allowable of 200 BOPD. Well capability has been demonstrated to be far in excess of 600 barrels of emulsion per day, but while the initial rates were curtailed for regulatory reasons, more recently the well production has been limited because of decreased pricing. With recovering prices the well could be pumped harder for increased rates of production and Bison will monitor the value of doing so.

### Huntoon/Innes



With the initial success at Huntoon, Bison acquired additional lands and 21 kilometres of 2D seismic. Bison completed the acquisition of a producing oil well located at 01-28-007-09 W2M producing 9 BOPD and two sections of land at a 100% working interest in the well and lands. Locations for two 100% working interest follow-up wells for new pools were selected on seismic leads and were drilled in the third and fourth quarters. Failure to encounter commercial hydrocarbons has caused Bison to re-evaluate the play and postpone any further shallow drilling activity in the immediate area.

In the first quarter of 1998 Bison signed a farmout agreement on an 80 acre block in the Innes area of Southeast Saskatchewan whereby a third party agreed to pay certain costs of the well to earn an interest from Bison. On July 2, 1998 Bison announced the successful completion of a two leg multi-lateral horizontal oilwell drilled in the Frobisher Formation located at 15-26-007-11 W2M. The well is operated by the farmee and is currently producing with only one horizontal leg open. Bison retains a 45% working interest in the production with net production of 17 BOPD.

Bison expanded its land position in Saskatchewan and has developed additional prospects in the Auburnton, Buffalo Head, Huntoon, Wauchope and Wilmar areas. Bison acquired 4,720 net acres in these areas at an average 93% working interest and now retains an average 94% working interest in 6,436 net acres at an average cost of \$100 per acre.

The profitability of gas production in Alberta has caused Bison to venture into acquisition of freehold lands and posting public lands. Current land holdings in Alberta are 1,047 net acres at an average 31% working interest.

## prospect review

**Auburnton, Saskatchewan**

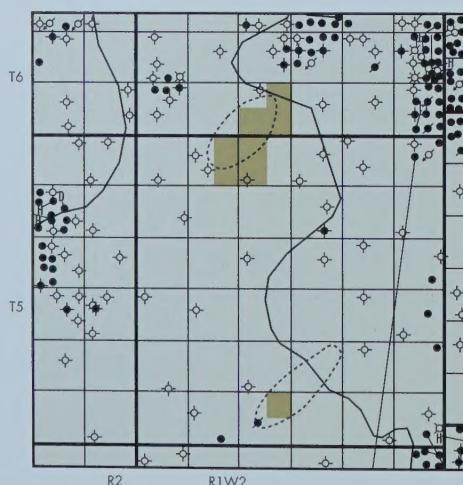
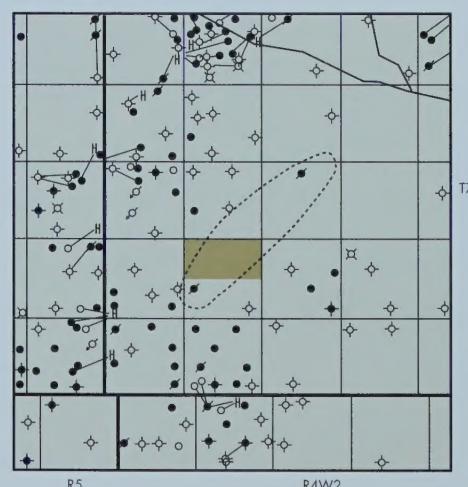
Bison has a 100% working interest in 1,280 acres in the Auburnton area of Southeast Saskatchewan. Oil production in the area is from the Frobisher Beds, limestones composed of porous oolitic packstone to grainstone. The reservoir is subdivided into four different porous cycles, "A" through "D", with the Upper "A" and "B" zones being the main target horizons. The hydrocarbon trapping mechanism is a combination of structural and stratigraphic changes along topographic ridges formed by the Mississippian unconformity where the porous limestone units are truncated and sealed by anhydrite infilling the porosity. An active water drive provides excellent

pressure support and initial production rates. Bison has defined two 1,250 metre exploratory locations on two separate structural trends. Risked reserves for the exploratory locations are estimated to be 125 MSTB per well, with expected initial rates of 75 BOPD per well.

**Buffalo Head, Saskatchewan**

Bison has a 100% working interest in 320 acres in the N/2 of section 08-007-04 W2M in the Buffalo Head area of Southeast Saskatchewan. Oil production is expected from any of the Frobisher, Kisbey and Alida Beds within the Mississippian Mission Canyon. One 1,295 metre development location has been identified at 11-08-007-04 W2M

- gas
- ✖ suspended gas
- suspended
- ✳ abandoned gas
- location
- oil
- suspended oil
- ✖ injection
- ✖ service
- ✖ dry and abandoned
- abandoned oil
- directional
- horizontal
- pipeline
- pool
- Bison

**Auburnton****Buffalo Head**

with the Kisbey Sandstone as the primary target and the secondary targets being the Frobisher and Alida Formations. Risked recoverable reserve and initial production estimates are 100 MSTB of oil and 50 BOPD respectively.

### *Huntoon, Saskatchewan*

The Huntoon area is located approximately 50 kilometres southeast of Weyburn. Bison has an average 95% working interest in 3,966 acres of land located in Township 7 Range 9 W2M. Bison's oil production in the Huntoon area is from the Frobisher Beds within the Mississippian Mission Canyon Formation. Recent activity in the area has proven hydrocarbon potential exists in the deeper Devonian Winnipegosis Formation and the Ordovician Red River Formation.

A 2,300 metre exploratory Winnipegosis location is defined by 2-D seismic on 100% working interest lands at 10-21-007-09 W2M. The prospect horizon is a carbonate reef composed of a mottled fossiliferous dolomite with fair to excellent porosity. The 10-21 location is within a fairway of reefs with recent discoveries yielding initial production rates between 548 BOPD and 816 BOPD. A Red River oilwell offsets company lands and in order

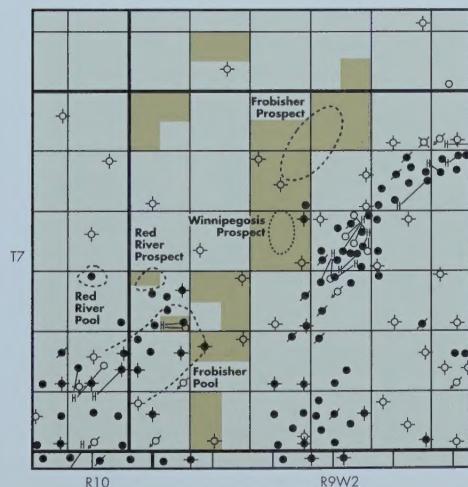
to model the well Bison shot 2-D seismic coverage over the producing well and onto 100 % working interest lands. The seismic revealed a structural anomaly similar to the producing well at a location on Bison land at 14-18-007-09 W2M. The initial production from the offset well was 397 BOPD.

Risked reserves for these exploratory locations are estimated to be 150 to 200 MSTB, with an expected initial rate in excess of 300 BOPD. The cost to drill, complete and equip wells for the above zones is between \$850,000 and \$950,000. Considering the high costs and risk associated with these wells Bison will find alternate methods of financing the drilling of these prospects.

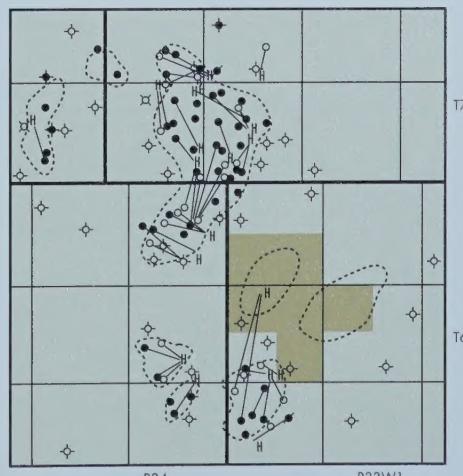
### *Wauchope, Saskatchewan*

Bison has a 100% working interest in 794 acres in sections 29, 30 & 31-06-033 W1M in the Wauchope area. The primary oil producing zones are the Alida and Tilston Beds of the Mission Canyon Formation comprised of porous bioclastic and oolitic grainstones deposited in a carbonate shoal environment. The prospect area is immediately adjacent to and updip from the producing Wauchope South Alida oil pool and on strike with a Wauchope Alida-Tilston oil pool to the northwest.

### **Huntoon**



### **Wauchope**



Two 1,200 metre exploratory locations have been identified at 14-30-006-33 W1M and 14-29-006-33 W1M with possible additional horizontal drilling locations to follow. Risked reserves for Tilston vertical locations are estimated to be 125 MSTB, with initial production rates of approximately 75 BOPD. Horizontal wells are likely to yield 200 MSTB with initial production rates up to 300 BOPD. A horizontal well would qualify for the oil royalty incentive program allowing for a 4% royalty on the first 75 MSTB of production.

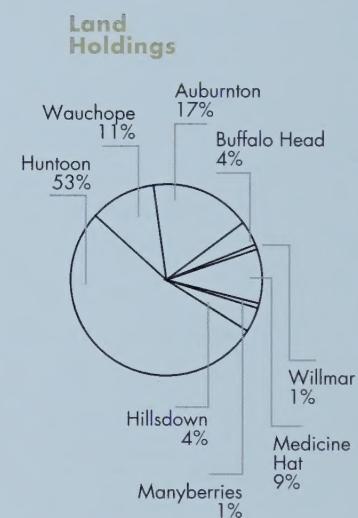
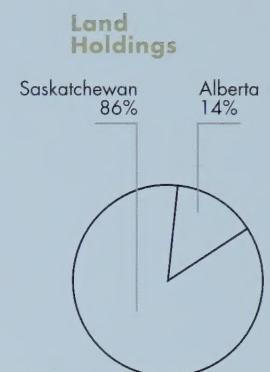
#### *Willmar, Saskatchewan*

Bison has a 100% working interest in 40 acres in Lsd 1 section 36-005-03 W2M in the Willmar area of Southeast Saskatchewan. Oil production in the Willmar Field is from the Frobisher Beds composed primarily of carbonate rocks with associated evaporites. The limestone reservoir consists of porous oolitic packstone to grainstone and the heterogeneous nature of the porosity development along with favorable structure determines the level of success in individual wells in this field.

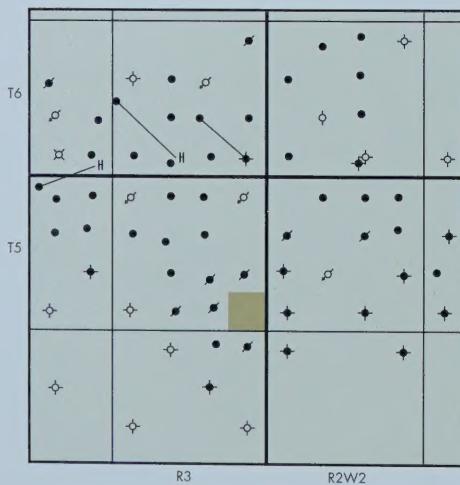
A low risk development location is present at 01-36-005-03 W2M on a geologically defined structural and porous trend completely surrounded by offsetting oilwells. Offset wells had initial production rates of between 131 BOPD and 158 BOPD. Conservative reserve and initial production estimates for the development location are 100 MSTB of oil and 50 BOPD respectively. The cost to drill, complete and equip a well is \$275,000.

#### *Medicine Hat, Alberta*

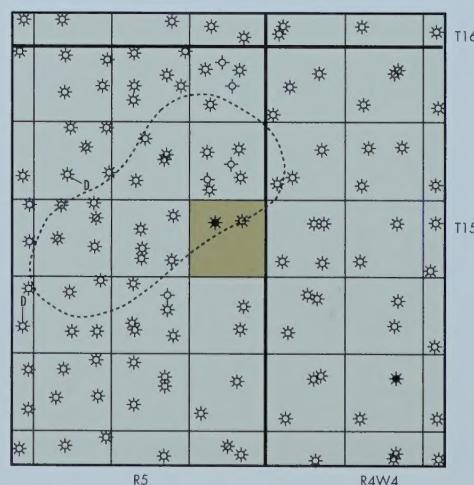
Bison has a 100% working interest in 640 acres in section 24-015-05 W4M targeting the Bow Island Formation as a primary location with a secondary zone in the Basal Colorado Sandstone. A 900 metre development location has been identified directly offsetting a number of Bow Island gaswells. Reservoir depletion models suggest that a successful well will produce from the Upper Bow Island Sandstone at rates of greater than 750 MCFPD with recoverable reserves of approximately 0.9 BCF.



#### **Willmar**

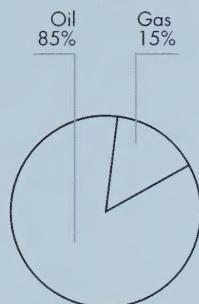


#### **Medicine Hat**

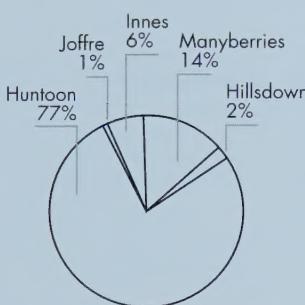


## p r o d u c t i o n   r e v i e w

### **Oil and Natural Gas Production**



### **Oil and Natural Gas Production**



### *Huntoon, Saskatchewan*

Bison's oil production in the Huntoon area is from the Frobisher Beds within the Mississippian Mission Canyon Formation. Current production is from two 100% working interest wells at rates of 179 and 9 BOPD, for a combined rate of 188 BOPD.

### *Innes, Saskatchewan*

The Innes area consists of 80 acres upon which Bison farmed out a horizontal well and retained a 45% working interest in the well with net production of 17 barrels of oil per day. The well is operated by a third party and is currently producing with only one horizontal leg open. The possibility exists that the second leg could be opened up at some point in the future although there are no immediate plans to do so.

### *Manyberries, Alberta*

The Manyberries area is located approximately 70 kilometres south of Medicine Hat. Bison holds a 15.4% working interest in gas production from the Sunburst Formation in a well located at 04-33-004-04 W4M with consistent rates of approximately 1,050 MCFPD. The property is fully developed with gas currently sold to the spot market.

### *Hillsdown, Alberta*

The Hillsdown area is located approximately 30 kilometres southeast of Red Deer. Bison holds various interests in three sections of land upon which are three Viking Formation gaswells, one producing and two shut-in. One of the shut-in wells is expected to be tied-in in the near future.

### *Joffre, Alberta*

The Joffre well located at 03-30-039-26 W4M is a Nisku Formation oil well drilled into the upper edge of a large well documented reef. Production from the well is very stable at about 24 BOEPD with Bison holding a 10% before payout and 6% after payout working interest for a net production of 2.4 BOEPD. No further development of the reef is possible at this time.

### *Production*

	Oil (bbls)	Natural Gas (mcf)	NGL (bbls)	BOE (bbls)	BOEPD (bbls)
<b>Saskatchewan</b>					
Huntoon	32,263	0	0	32,263	188
Innes	2,657	0	0	2,657	15
<b>Alberta</b>					
Manyberries	0	60,361	0	6,036	17
Hillsdown	0	4,589	93	552	2
Joffre	595	0	0	595	2
Total	35,515	64,950	93	42,103	224

## RESERVES AND FUTURE NET REVENUES REVIEW

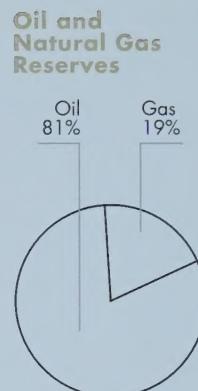
Bison's oil and natural gas reserves have been reported as at December 31, 1998 by Martin Brusset Associates ("MBA") in a report dated February 22, 1999. MBA prepared an evaluation of the oil and natural gas reserves and the future cash flows attributable to Bison's interests in Huntoon and Innes areas in Saskatchewan and the Hillsdown, Joffre and Manyberries area of Alberta.

The estimated future net production revenues stated net of royalties, operating costs and future development costs and prior to any provision for income taxes, overhead and interest costs are as follows.

Reserve volumes are before the deduction of royalty interests. Probable reserve values were reduced by 50% to allow for risk.

It should not be assumed that the discounted value of estimated future net production revenues is representative of the fair market value of the estimated oil and natural gas reserves.

The price forecast used in the evaluation was based on MBA's interpretation of future oil and gas prices as they relate to movements in world oil and gas prices. Oil prices for individual pools are based on published prices which vary with oil gravity and sulphur content. Future prices increase according to the reference price schedule, adjusted by the difference between the current price and the reference price. Gas prices were based on an assessment of likely prices for each major gas purchaser in Canada and vary with the cost of service.

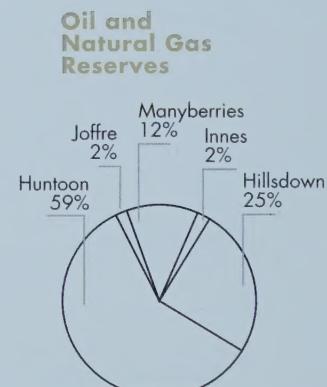


	Reserves			Discounted Value of Estimated Future Net Revenues		
	Oil (bbls)	Natural Gas (mcf)	Total (boe)	0%	10%	15%
Proved Producing	166,400	422,400	208,640	\$ 2,666,000	\$ 2,065,000	\$ 1,870,000
Probable	14,800	0	14,800	206,000	143,000	122,000
Total	181,200	422,400	223,440	\$ 2,872,000	\$ 2,208,000	\$ 1,992,000

## FINANCIAL REVIEW

During 1998 Bison issued a total of 3,765,000 common shares, raising a total of \$1,632,500 less share issuance costs of \$86,227 for net proceeds of \$1,546,273. Bison issued 2,265,000 of the total common shares by way of flow-through share offerings whereby the \$1,132,500 raised was required to be spent on qualified CDE and CDD expenditures allowing for the tax benefits of those expenditures to "flow-through" to the shareholder. In addition, Bison also secured bank financing by way of a \$500,000 long-term revolving line of credit which had a balance of \$231,000 at December 31, 1998. Bison used these funds along with cash flow from operations and cash from earlier share offerings to finance capital expenditures

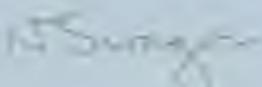
of \$2,235,633 in 1998. Oil revenues constituted 85% of the gross oil and gas sales of \$695,016 (\$16.51 per BOE) while royalties paid (net of ARTC) totaled \$27,434 (\$0.65 per BOE) and lease operating expenses totaled \$114,132 (\$2.71 per BOE) resulting in net cash flow from oil & gas activities of \$553,450 in 1998. General and administrative expenses totaled \$351,390 and interest paid on Bison's long-term revolving line of credit was \$5,960. Cash flow from operations totaled \$318,931 or \$0.05 per share in 1998. Earnings before interest, income taxes, and depreciation, depletion and amortization was \$202,067 and Bison's net loss for 1998 was \$(198,936) or \$(0.03) per share.



## management's report

Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report. Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee has reviewed the financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.



Nicolas S. Swagor  
*President*



Kevin D. Dumba  
*Vice President Finance*

## auditor's report

We have audited the consolidated balance sheets of Bison Resources Ltd. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Canada  
March 12, 1999

## consolidated balance sheets

December 31, 1998 and 1997	1998	1997
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$ 673,199
Accounts receivable	<b>122,101</b>	57,602
Other	<b>11,567</b>	19,889
	<b>133,668</b>	750,690
Capital assets (note 3)	<b>1,718,474</b>	491,884
	<b>\$ 1,852,142</b>	\$ 1,242,574
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 17,237	\$ -
Accounts payable and accrued liabilities	<b>195,917</b>	16,916
Due on acquisition of Lupine (note 2)	-	301,008
	<b>213,154</b>	317,924
Long-term debt (note 4)	<b>231,000</b>	-
Due on acquisition of Lupine (note 2)	-	250,000
Shareholders' equity:		
Share capital (note 5)	<b>1,622,350</b>	690,076
Deficit	<b>(214,362)</b>	(15,426)
	<b>1,407,988</b>	674,650
	<b>\$ 1,852,142</b>	\$ 1,242,574

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director



Director

**consolidated statements  
of operations and deficit**

Years ended December 31, 1998 and 1997	<b>1998</b>	1997
<b>Revenue:</b>		
Oil and gas revenues	<b>\$ 695,016</b>	\$ —
Royalties	<b>(27,434)</b>	—
Interest	<b>7</b>	838
	<b>667,589</b>	838
<b>Expenses:</b>		
Production	<b>114,132</b>	—
Depreciation, depletion and amortization	<b>395,043</b>	—
General and administration	<b>351,390</b>	16,264
Interest on long-term debt	<b>5,960</b>	—
	<b>866,525</b>	16,264
Net loss	<b>198,936</b>	15,426
Deficit, beginning of year	<b>15,426</b>	—
Deficit, end of year	<b>\$ 214,362</b>	\$ 15,426
Net loss per share, basic	<b>\$ (0.03)</b>	\$ (0.01)

*See accompanying notes to consolidated financial statements.*

**Consolidated statements of  
financial position**

Years ended December 31, 1998 and 1997	<b>1998</b>	1997
<b>Cash provided by (used in):</b>		
Operations:		
Net loss	<b>\$ (198,936)</b>	\$ (15,426)
Deduct non-cash item:		
Depletion, depreciation and amortization	<b>395,043</b>	-
Change in non-cash operating working capital	<b>122,824</b>	(18,203)
	<b>318,931</b>	(33,629)
<b>Financing:</b>		
Proceeds on long-term debt	<b>231,000</b>	-
Issue of share capital	<b>1,632,500</b>	750,000
Share issue costs	<b>(86,226)</b>	(59,924)
	<b>1,777,274</b>	690,076
<b>Investments:</b>		
Due on acquisition (note 2)	<b>(551,008)</b>	551,008
Business acquisition (note 2)	<b>-</b>	(532,736)
Additions to capital assets	<b>(2,235,633)</b>	(1,520)
	<b>(2,786,641)</b>	16,752
Increase (decrease) in cash	<b>(690,436)</b>	673,199
Cash, beginning of year	<b>673,199</b>	-
Cash (bank indebtedness), end of year	<b>\$ (17,237)</b>	\$ 673,199

Cash is comprised of cash and short-term deposits

*See accompanying notes to consolidated financial statements.*

## notes to consolidated financial statements

### *Incorporation and basis of presentation*

Bison Resources Ltd. (the "Corporation") was incorporated under the Business Corporations Act (Alberta) on May 7, 1997. These consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiary, Lupine Investment Corporation. Effective December 31, 1998 the Corporation and its wholly-owned subsidiary were amalgamated.

### **1. Significant Accounting Policies**

#### **(a) Capital assets:**

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized by cost centre. Such costs include land acquisition costs, cost of drilling both productive and non-productive wells, and geological and geophysical expenses and related overhead.

Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on the relative energy content.

The Corporation applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Corporation's year end, and the costs of unproven properties less impairment. Future net revenues are undiscounted and are calculated after deducting general and administrative costs, financing costs, income taxes and site restoration and abandonment costs.

Gains or losses on the disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a major revision of depletion rates. Depreciation of furniture and office equipment will be provided using the straight-line method based upon estimated useful lives at rates of 15% to 25%.

#### **(b) Interest in joint ventures:**

A portion of the Corporation's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

#### **(c) Future site restoration and abandonment costs:**

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Corporation's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

#### **(d) Measurement uncertainty:**

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

**(e) Per share amounts:**

Per share amounts are calculated using the weighted average number of shares outstanding during the year. Fully diluted per share calculations reflect the exercise of options and warrants at the later of the date of issuance or the beginning of the year. Anti-dilutive options and warrants are not included in the calculation.

**(f) Flow-through shares:**

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

***2. Business Acquisition***

Effective December 30, 1997, the Corporation acquired 100% of the outstanding common shares of Lupine Investment Corporation ("Lupine") for total consideration of \$551,008. The consideration, comprised of cash and common shares of the Corporation, was paid upon the satisfaction of the conditions in the Share Sale Agreement (the "Agreement"). On February 26, 1998, the Agreement was amended to reduce the total number of shares to be issued as consideration from 1,000,000 to 500,000. The acquisition has been accounted for using the purchase method as follows:

Allocated:			
Capital assets		\$ 490,364	
Current assets (including cash of \$18,272)		68,221	
Current liabilities		(7,577)	
		\$ 551,008	
Cost of acquisition:			
Due on acquisition:			
Cash		\$ 301,008	
Common shares		250,000	
		\$ 551,008	

An officer and director of the Corporation controlling 17.2% of the outstanding common shares of the Corporation controlled 25% of the outstanding shares of Lupine prior to completion of the transaction.

***3. Capital Assets***

	Cost	Accumulated depreciation	1998 Net book value
Petroleum and natural gas properties and equipment	\$ 2,086,300	\$ 390,800	\$ 1,695,500
Furniture and office equipment	27,217	4,243	22,974
	\$ 2,113,517	\$ 395,043	\$ 1,718,474
Petroleum and natural gas properties and equipment			\$ 490,364
Furniture and office equipment			1,520
			\$ 491,884

The 1998 ceiling test was conducted using average prices received for the year. If the evaluation had been carried out using year end prices of \$13.29 a barrel for oil and \$1.76 an mcf for gas, capitalized costs with respect to the petroleum and natural gas properties would have exceeded future net revenues by approximately \$200,000. The depletion calculation has excluded unproved properties of \$404,000 (1997 - \$nil). As at December 31, 1998 the estimated future site restoration costs to be accrued over the remaining proved reserves are \$62,210 (1997 - \$13,210).

#### *4. Long-term Debt:*

The long-term debt is comprised of a revolving term loan with an authorized borrowing base of \$500,000, bearing interest at prime plus 1% per annum with interest payable monthly. The credit will revolve until May 31, 1999, when the credit facility may be converted to a term facility with a term not exceeding five years, the committed limit of which will be determined by the bank. The long-term debt is secured by a general assignment of book debts, and a \$10,000,000 demand debenture conveying a first floating charge over all assets.

#### *5. Share Capital*

Authorized: Unlimited number of common shares

(b) Common shares issued:

	Number of Shares	Amount
Initial private capital	2,000,000	\$ 200,000
Public offering	1,000,000	200,000
Private placement flow through shares	1,000,000	350,000
Share issue costs	-	(59,924)
Balance, December 31, 1997	4,000,000	690,076
Private placement	1,000,000	250,000
Issued on acquisition (note 2)	500,000	250,000
Private placement flow through shares	2,265,000	1,132,500
Less tax effect of flow-through shares	-	(614,000)
Share issue costs	-	(86,226)
<b>Balance, December 31, 1998</b>	<b>7,765,000</b>	<b>\$ 1,622,350</b>

(c) The directors of the Corporation have approved a stock option plan whereby common shares of the Corporation will be available for purchase by directors, officers and management of the Corporation. At December 31, 1998, options have been granted to officers and directors of the Corporation to purchase 475,000 (1997 - 300,000) common shares at prices of \$0.20 to \$0.50 per share expiring on dates ranging from July 30, 2002 to April 30, 2003. In addition, the Corporation granted 100,000 options to an agent on September 22, 1997 in conjunction with its initial public offering. These options are priced at \$0.20 per share and expire May 6, 1999.

(d) Pursuant to various escrow agreements, 3,429,800 common shares are being held in escrow. These shares are to be released as to one third thereof on each of the first, second and third anniversaries of the completion of the acquisition of Lupine or earlier at the discretion of the Alberta Securities Commission or The Alberta Stock Exchange.

### *6. Income Taxes*

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 44.6% to income before income taxes. The difference relates to the following items:

	<b>1998</b>	1997
Statutory tax rate:	<b>44.6%</b>	44.6%
Expected recovery	\$ <b>(88,800)</b>	\$ (6,900)
Non-deductible crown charges	<b>21,000</b>	-
Alberta Royalty Tax Credit	<b>(11,000)</b>	-
Resource allowance	<b>(24,000)</b>	-
Non deductible depletion	<b>78,000</b>	-
Other	<b>1,300</b>	440
Benefit of losses not recognized	<b>23,500</b>	6,460
	<b>\$ -</b>	\$ -

As at December 31, 1998, the Corporation has a commitment to renounce approximately \$70,000 (1997 - \$350,000) of income tax attributes associated with oil and gas exploratory and development activities.

### *7. Related Party Transactions*

Included in accounts receivable is \$17,324 (1997 - \$36,836) due from companies controlled by an officer and director of the Corporation. Included in accounts payable is \$nil (1997 - \$16,116) due to companies controlled by officers and directors of the Corporation.

### *8. Uncertainty due to the Year 2000 Issue*

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**corporate information****Head Office**

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**Directors**

David G. Anderson<sup>(1)</sup>  
 Chief Financial Officer  
 MC<sup>2</sup> Learning Systems Inc.  
 David S. Burghardt  
 Vice President Engineering  
 Bison Resources Ltd.  
 Kevin D. Dumba<sup>(1)</sup>  
 Vice President Finance  
 Bison Resources Ltd.  
 R. Bradley Hurtubise<sup>(1)</sup>  
 Senior Vice President Finance  
 Direct Energy Marketing Limited  
 Nicolas S. Swagor  
 President  
 Bison Resources Ltd.  
<sup>(1)</sup> Member of Audit Committee

**Officers**

David S. Burghardt  
 Vice President Engineering  
 Kevin D. Dumba  
 Vice President Finance  
 Barrie Regan  
 Vice President Exploration  
 Nicolas S. Swagor  
 President

**Share Capital**

Authorized: Unlimited number of Class "A" Common Shares, and unlimited number of first and second preferred shares.  
 Issued and outstanding:  
 7,765,000 (8,340,000 fully diluted)

**Stock Exchange Listing**

The Alberta Stock Exchange  
 Symbol: BIS.A

**Market Information**

Common Share Price	
High	\$ 0.79
Low	\$ 0.39
Close	\$ 0.40
Common Shares Traded	
First quarter	112,158
Second quarter	118,500
Third quarter	54,000
Fourth quarter	33,500
Year	318,158
Year-end shares outstanding	7,765,000
Weighted average shares outstanding	6,450,521

**Registrar and Listing Agent**

Montreal Trust Company of Canada  
 Calgary, Alberta

**Banking**

Bank of Nova Scotia  
 Calgary, Alberta

**Auditors**

KPMG LLP  
 Calgary, Alberta

**Abbreviations**

ARTC	Alberta Royalty Tax Credit
BBL	Barrel
BCF	Billion cubic feet
BOE	Barrel of oil equivalent (10 mcf of natural gas = 1 bbl of oil)
BOEPD	Barrels of oil equivalent per day
BOPD	Barrels of oil per day
CDE	Canadian development expense

CEE	Canadian exploration expense
EBITDA	Earnings before interest, income taxes, and depreciation, depletion and amortization
MCF	Thousand cubic feet
MCFPD	Thousand cubic feet per day
MSTB	Thousand Stock Tank Barrels
NGL	Natural gas liquids

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